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STAFF REPORT

BOARD MEETING DATE: December 9, 2014

DATE: November 13, 2014

TO: Board of County Commissioners

FROM: Alison A. Gordon, Internal Auditor 
328-2064, agordon@washoecounty.us

THROUGH: John Slaughter, County Manager

SUBJECT: Acknowledge Receipt of Second Judicial District Court Minimum Accounting Standards Audit Report from the Internal Audit Division (All Commission Districts)

SUMMARY

The purpose of the audit was to perform the four-year audit of the Second Judicial District Court (District Court) as required by the Minimum Accounting Standards (MAS) adopted by the Nevada Supreme Court. This included evaluating whether the procedures performed by District Court comply with the MAS requirements for Nevada district courts.

Based on the results of these procedures, we noted certain items, which represent instances of non-compliance with the MAS.

The results of the review indicated:

- The Court needs to ensure it complies with the MAS requirement to follow PCI Data Security Standards for customer payments with debit and credit cards. The Court was unaware of this new requirement in the MAS. Once identified, the Court has started working on its compliance with the PCI Data Security Standards, including the questionnaire, and development of policies and procedures.
- Several instances were noted where accounting controls needed improvement. This includes implementing a change log/form to document change transactions, and ensuring void receipts are notated as "void" and are initialed by both the preparer and reviewer. Additionally, void checks should include documenting a reason for the void as well as review and approval, and deposits should be initialed by the preparer and reviewer.
- The Court needs to enhance its policies and procedures for certain MAS control requirements over change transactions, cash bag limits, void receipts, void checks and bank deposits. In addition, the Court needs to document these written procedures have been provided to court staff (as applicable).

AGENDA ITEM # 813

An implementation plan establishing responsibilities and timelines will be developed with the District Court. This plan will then be reviewed with the Audit Committee and updated at each of their meetings. Implementation of recommendations having fiscal impact will be brought to the Board of County Commissioners for approval.

County Priority/Goal supported by this item: Government Efficiency and Financial Stability

PREVIOUS ACTION

No previous action has been taken on this Board item.

BACKGROUND

The District Court's mission is to provide the timely, fair and efficient administration of justice under the law, in a manner that instills and sustains the public's confidence in the judicial system.

Nevada courts are established by the Constitution of the State of Nevada. They are courts of limited jurisdiction for their respective townships. The Courts preserve order and the rule of law by adjudicating criminal and civil cases before the court pursuant to local ordinances, state laws, the Nevada Constitution, and the Constitution of the United States.

The Nevada Supreme Court provides oversight of all court functions within Nevada. The Chief Justice is considered by law to be the administrative head of the court system with the support of the Administrative Office of the Courts (AOC). NRS 1.360 states, in part, that under the direction of the Supreme Court, the AOC shall examine the administrative procedures used by all courts and make recommendations for improvement of those procedures. In addition, the AOC is to develop procedures for accounting, internal auditing, procurement, and disbursement to the state court system.

In February 1997, the Nevada Supreme Court issued an order adopting the MAS for Nevada's district, justice and municipal courts. MAS version 3.0 issued January 2012 provides the courts with policy defining requirements for a court's financial operations and internal accounting and financial management controls. The courts are required to use the MAS policies to develop their individual procedures for internal controls to ensure separation of duties to help prevent misappropriation of public funds or other associated crimes. The court's procedures will also establish means for ensuring the reliability of the court's records and detection of errors.

The revised MAS requires all district, justice, and municipal courts to submit their written procedures electronically to the AOC Audit Unit biennially no later than December 31 in the first year established for their submission in the Supreme Court's Order. The first year established for Washoe County courts was December 2012. In addition, the courts must have an independent MAS conducted by either an outside audit firm or internal audit agency on each district, justice and municipal court every four years. For Washoe County courts, the first independent audit is due December 31, 2014. Based on discussions with the AOC staff responsible for the MAS, it was determined the

County's Internal Audit Division could perform the required independent MAS audit. This will save the court the cost of hiring a contractor to perform this work.

SCOPE AND METHODOLOGY

The scope of the audit included evaluating the practices used by the District Court for efficiency and effectiveness. It also included reviewing internal controls and compliance with County policies, applicable NRS, and MAS.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards, and covered the period of July 2013 to June 2014. Fieldwork was conducted between September and November 2014.

FISCAL IMPACT

This report has no fiscal impact. However, implementation of some recommendations may have fiscal impact.

RECOMMENDATION

It is recommended the Board of County Commissioners acknowledge receipt of this MAS audit report of the District Court.

POSSIBLE MOTION

Should the Board of County Commissioners acknowledge receipt of this audit report, a possible motion would be:

Move to acknowledge receipt of the Second Judicial District Court Minimum Accounting Standards Audit Report from the Internal Audit Division.

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Attachment

Washoe County Second Judicial District Court

MAS Audit Report

November 13, 2014

Executive Summary

Observations

1. The District Court needs to ensure it complies with the Minimum Accounting Standards, MAS, requirement to follow PCI Data Security Standards for customer payments made with credit and debit cards.
 - Once this requirement was identified, the Court began working on and completed its compliance with the PCI Data Security Standards, including the development of policies and procedures.
 - Non-compliance could involve various consequences including lawsuits, insurance claims, payment card issuer and government fines should customer data become compromised.
2. The District Court needs to enhance certain accounting controls. These include:
 - Using a change log/form when issuing change to the cashiers,
 - Ensuring void receipts are notated with “void” and secondary approval is documented,
 - Documenting the initials of the individual creating and having a second court member review and approve void checks, as well as a reason for the void check, and,
 - Ensuring bank deposits include the initials of the preparer and the secondary reviewer.
3. The District Court’s MAS policies and procedures need updating and documentation is needed to show these procedures have been provided to staff (as applicable).
 - As part of the audit, we compared the Court’s operations against their established policies and procedures and MAS requirements.
 - The policies and procedures did not include certain MAS requirements for change funds, cash bag limits, void receipts, void checks, and bank deposits.
 - In addition, the Court needs to document these written procedures have been provided to court staff handling cash receipts and payments (as applicable).

Observations and Recommendations

1. Payment Card Industry Data Security Standards Compliance

The Second Judicial District Court (District Court) needs to ensure it is complying with the Payment Card Industry Security Standards (PCI-DSS) as required by the current Minimum Accounting Standards. At the beginning of the MAS audit, the District Court was unaware of this new requirement. However, when it was identified as part of the MAS audit the court has begun working to comply with the MAS; and the Reno Justice Court provided District Court with copies of its completed questionnaire as well as the policies and procedures it developed for use as a template.

The PCI-DSS represents a common set of industry tools and measurements to help ensure the safe handling of sensitive payment card information. Compliance with PCI-DSS means that systems are secure and customers can trust the safe handling of the sensitive payment card information among other benefits. Tools to assist organizations in validating their PCI-DSS compliance include Self-Assessment Questionnaires. Additionally, organizations are required to ensure the vendors involved with processing credit card transactions and any software used is PCI-DSS compliant. Also, the MAS requires the courts to have policies and procedures in place regarding compliance with PCI-DSS.

Noncompliance could have serious ramifications including compromised data that negatively affects customers, merchants and financial institutions, and damage to the County's reputation. Other possible negative consequences include lawsuits, insurance claims, payment card issuer fines and government fines.

As of the date of this audit, the District Court is in the process of completing its PCI-DSS self-assessment questionnaire, is obtaining documentation from its vendors involved with processing credit card transactions, and developing policies and procedures.

Recommendations:

- 1.1 Perform analysis and complete the PCI-DSS self-assessment questionnaire,*
- 1.2 Obtain documentation from vendors involved with processing credit card transactions, and,*
- 1.3 Develop PCI-DSS policies and procedures.*

2. Accounting Controls

Change Fund Log

The District Court needs to comply with the MAS regarding the change fund. Specifically, the Court should use a log/form to document the change provided to the

clerks who accept payments over the counter. When the clerks need change, they take the cash to be exchanged out of their cash drawer and to the filing office supervisor. The supervisor unlocks the change fund, makes the change; and gives it to the clerk. However, there is no documentation of this exchange. To help prevent overages and shortages, change transactions should be recorded on a log/form and be double counted. In addition, the log/form should be signed off by both the supervisor and the cashier.

Void Receipts

The District Court needs to comply with best practices and the MAS regarding void receipt documents. Specifically, the court needs to ensure the word “void” is documented on the receipts being voided. Also, void receipts need to document the approver’s initials. As part of the audit, a random sample of 15 void receipts was selected for testing. Thirteen of the 15 test items did not include “void” written on the receipt voided. For five of the test items, there was no evidence of approval by a second person.

An adequate system of internal controls includes ensuring the word “void” is documented on void receipts and that review and approval of void receipts is documented with the reviewer’s initials. Without review and approval, the possibility exists for the theft of cash receipts.

Void Checks

The District Court needs to ensure void checks are prepared by one individual and reviewed and approved by a supervisor, and that a reason is notated on the voided check. Ten of the court’s void checks during FY2014 were randomly selected for testing using a report from the Court’s case management system. Nine of the void checks did not include the initials of employee voiding the check or evidence of supervisor review and approval. For the 10th item, only one staff member initialed the void. Additionally, for eight of the 10 items, the reason for the void was not documented.

Best practices include having void disbursements reviewed by a supervisor or another court member and documenting a reason for the void. This review helps ensure voided disbursements have been properly voided so no one can present it to a bank at a later date and be paid for it.

Bank Deposits

The District Court needs to ensure that bank deposits are prepared by one individual and reviewed by a supervisor. A random sample of 36 bank deposits were selected for testing. Of these, two of the deposits documented only the initials of the individual preparing the deposit and one deposit did not show the initials of the preparer or the reviewer.

Best practices include having bank deposits prepared by one individual, and reviewed and approved by a second individual, preferably a supervisor. Supervisor review and

approval helps ensure bank deposits are complete and reconciled to the cash receipts recorded in the Court's case management system.

As of the date of this report, the Court reports it is in the process of strengthening its accounting controls to address the recommendations below.

Recommendations:

The District Court should ensure:

- 2.1 Use a change log/form when issuing change,*
- 2.2 All void receipts document supervisor review and include "void" notated on the void receipt,*
- 2.3 Void checks are reviewed and approved,*
- 2.4 Voided checks include a reason for the void, and*
- 2.5 Bank deposits document the initials of both the preparer and reviewer.*

3. Policies and Procedures

The District Court's policies and procedures need enhancement. Currently, the Court has policies and procedures documented. As required by the MAS Audit Guidelines, we performed a comparison of the Court's policies and procedures addressing the MAS Checklist requirements and noted the current procedures do not fully address the controls required by MAS. This includes procedures for writing "void" on voided cash receipts, notating "void" on voided checks, requiring void checks to include a reason for the void as well as a secondary reviewer, and requiring the initials of both the preparer and review of bank deposits.

In addition to enhancing the MAS policies and procedures, the Court needs to document these written procedures have been provided to court staff (as applicable). Six personnel files were reviewed for staff involved in the cash receipting/payment processes. Evidence shows the MAS procedures were provided and read was only documented in one of the files reviewed.

As of the date of this report, the Court is in the process of updating its policies and procedures.

Recommendations:

The District Court needs to:

- 3.1 Ensure its policies and procedures are in accordance with MAS requirements.*
- 3.2 Document the MAS written procedures have been provided to Court staff (as applicable).*